

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name HURON SHORES REGIONAL UTILITY AUTHORITY	County IOSCO
Audit Date 12/31/2004	Opinion Date 03/10/2005	Date Accountant Report Submitted to State: 04/07/2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.			
Street Address 325 NEWMAN STREET, PO BOX 592	City EAST TAWAS	State MI	ZIP 48730
Accountant Signature  Donald W. Brannan CPA		Digitally signed by Stephenson, Grack and Co., P.C. DN: cn=Stephenson, Grack and Co., P.C., c=US Date: 2005.02.14 14:30:02 -05'00'	



Stephenson Gracik & Co., P.C.

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HURON SHORE REGIONAL UTILITY AUTHORITY
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2004

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March 10, 2005

Independent Auditors' Report

Members of the Board
Huron Shore Regional Utility Authority
Iosco County, Michigan

We have audited the accompanying financial statements of the business-type activities of the Huron Shore Regional Utility Authority, Iosco County, Michigan, as of and for the year ended December 31, 2004, which collectively comprise the Huron Shore Regional Utility Authority's basic financial statements, as listed in the index. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the business-type activities of the Huron Shore Regional Utility Authority, Iosco County, Michigan, as of December 31, 2004, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2005, on our consideration of the Huron Shore Regional Utility Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 2, the Huron Shore Regional Utility Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements -and Management's Discussion and Analysis -for State and Local Governments*, as of December 31, 2004.

The management's discussion and analysis information is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Stephenson, Gracik & Co., P.C.



Huron Shore Regional Utility Authority

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247 Baldwin Resort Road, East Tawas, Michigan 48730



MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the **Huron Shore Regional Utility Authority**, (the Authority) we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2004. This Analysis, a requirement of Governmental Accounting Standards Board Statement 34 (GASB 34) omits certain comparative data that will be available in future years.

Financial Highlights

- The Authority's assets exceeded its liabilities by \$12,249,255 (*net assets*) for the fiscal year reported. Of this amount, \$747,301 (*unrestricted net assets*) represents the portion available for spending.
- The Authority's total net assets increased by \$524,368 or 4.5% over the course of the year's operations.
- The Authority contracted with Fishbeck, Thompson, Carr & Huber, engineers from Grand Rapids, Michigan in 2004 to complete a reliability study, vulnerability study, and emergency response plan for the Water System. This federally required planning at a cost of \$77,000 should help the Authority identify and save money on future improvements to the system.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditors' report and the basic financial statements of the Authority. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the Authority report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the Statement of Revenue, Expenses and Changes in Net Assets. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to Financial Statements

The accompanying notes to financial statements provide information essential to a full understanding of the financial statements. The notes to financial statements are presented in Exhibit D of this report.

Analysis of Financial Position:

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets, and the Statement of Revenue, Expenses, and Changes in Net Assets report information about the Authority's activities in a way that will help answer this question. These two statements report the net assets of the Authority and the changes in them. One can think of the Authority's net assets (the difference between assets and liabilities) as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions and new or changed government legislation.

Because this is the first year of implementation of Government Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis will be presented.

Summary of Net Assets:

The following summarizes the net assets of the Huron Shore Regional Utility Authority at December 31, 2004:

Net Assets Summary

Current Assets	\$ 888,559
Restricted Assets	6,014
Capital Assets – net	<u>15,980,940</u>
Total Assets	<u>16,875,513</u>
Current Liabilities	786,258
Long-Term Liabilities	<u>3,840,000</u>
Total Liabilities	<u>4,626,258</u>
Net Assets	
Invested in Capital Assets	11,495,940
Restricted for Debt Service	6,014
Unrestricted	<u>747,301</u>
Total Net Assets	<u>\$ 12,249,255</u>

Capital Asset and Debt Administration

Capital assets. The Authority's investment in capital assets as of December 31, 2004, amounted to \$15,980,940 (net of accumulated depreciation). This investment in capital assets includes the land and distribution and collection system. Net capital assets for the Authority decreased by \$361,177. The distribution and collection system increases were for upgrades to the computer systems that run the plant. Total depreciation expense for this year amounts to \$378,386 with ending accumulated depreciation being \$2,855,788.

Capital Assets Summary (Net of depreciation)

Land	\$ 14,958
Distribution and collection system	<u>15,965,982</u>
Capital Assets - net	<u>\$ 15,980,940</u>

Additional information on capital assets can be found in Exhibit D.

Long-Term Debt

At year end, long-term debt (due in more than one year) amounted to \$3,840,000. Such debt includes *Bonds Payable*. Additional information on long-term debt can be found in Exhibit D.

Net Assets Restricted for Debt Service

As previously noted, the unreserved net assets amounts to \$747,301 and is available for spending at the Authority's discretion. The remaining restricted net assets are to be used for the retirement of general obligation bond issues.

Summary of Revenues and Expenses:

The following summarizes the revenues and expenses of the Huron Shore Regional Utility Authority at December 31, 2004:

Operating revenue	\$ 951,533
Non operating revenue	<u>898,114</u>
Total revenue	<u>1,849,647</u>
Depreciation expense	378,386
Other operating expenses	678,779
Non-operating expenses	<u>268,114</u>
Total expenses	<u>1,325,279</u>
Change in Net Assets	<u>\$ 524,368</u>

Economic Factors and Next Year's Budget and Rates

The management of the Authority considered many factors in setting the fiscal year 2005 budget. As always, the overriding factor was to keep expenses at or below the amount of revenue. The majority of revenue generated by the Authority is derived from operations and maintenance fees. These fees are collected from each municipality based on water consumption, that are part of the Authority's joint venture, and are used to pay for operating expenses incurred by the Authority. The Authority also receives reimbursements from its member municipalities that are used to pay debt payments.

The most significant expenses remain professional services paid to Earth Tech for operations and maintenance of the Authority and depreciation .

The Authority has reduced the largest expense line item in the budget for 2005 by paying off a \$784,000 contract with Earth Tech for improvements to the water towers and re-pump stations. A 15% savings was realized in 2004. This savings has allowed the Authority to cover the costs of federal mandates and plan for needed improvements to the Authority's metering systems without raising rates. The rates to the constituent municipalities have actually been reduced slightly.

Requests for Information

This financial report is designed to provide a general overview of the Huron Shore Regional Utility Authority finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Huron Shore Regional Utility Authority, 247 N. Baldwin Resort, East Tawas, Michigan 48730.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

STATEMENT OF NET ASSETS
December 31, 2004

Assets

Current assets:

Cash and cash equivalents (Note 3)	\$ 823,037
Due from local units	40,440
Prepaid expenses	25,082
Total current assets	<u>888,559</u>

Restricted assets:

Cash and cash equivalents (Notes 1 and 3)	6,014
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Noncurrent assets:

Capital assets, net (Note 4)	<u>15,980,940</u>
Total Assets	<u>16,875,513</u>

Liabilities

Accounts payable	96,798
Accrued interest	40,440
Deferred revenue	4,020
Long-term liabilities:	
Due within one year (Note 5)	645,000
Due in more than one year (Note 5)	<u>3,840,000</u>
Total Liabilities	<u>4,626,258</u>

Net Assets

Invested in capital assets, net of related debt	11,495,940
Restricted for:	
Debt Service	6,014
Unrestricted	<u>747,301</u>
Total Net Assets	<u>\$ 12,249,255</u>

The accompanying notes to financial statements are an integral part of this statement.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENSES AND
 CHANGES IN NET ASSETS
For the Year Ended December 31, 2004

Operating Revenue

Charges for services	\$ 900,200
Interest earned	2,417
Rent	40,080
Other	8,836
Total operating revenue	<u>951,533</u>

Operating Expenses

Insurance	30,992
Legal and accounting	45,470
Maintenance and repairs	1,000
Miscellaneous	2,732
Office supplies	2
Professional services	577,924
Printing and publishing	731
Utilities	20,927
Depreciation	378,386
Total operating expenses	<u>1,057,165</u>
Operating loss	<u>(105,632)</u>

Non-operating Revenue (Expenses)

Local reimbursements	898,114
Interest expense	(267,414)
Paying agent fees	(700)
Total non-operating revenue (expenses)	<u>630,000</u>

Change in net assets 524,368

Net assets - beginning of year, as restated (Note 2) 11,724,887

Net assets - end of year \$ 12,249,255

The accompanying notes to financial statements are an integral part of this statement.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2004

Cash Flows From Operating Activities

Cash received from charges for services	\$ 950,136
Cash paid to suppliers for goods and services	(678,211)
Interest received on deposits	2,417
Net cash provided by operating activities (Note 8)	<u>274,342</u>

Cash Flows From Capital and Related Financing Activities

Reimbursements from local units	903,324
Cash purchase of property, plant and equipment	(17,209)
Repayment of bonds payable	(630,000)
Interest and paying agent fees paid	(273,324)
Net cash used by capital and related financing activities	<u>(17,209)</u>

Net increase in cash and cash equivalents	257,133
Cash and cash equivalents at beginning of year (Note 1)	<u>571,918</u>
Cash and cash equivalents at end of year (Note 1)	<u><u>\$ 829,051</u></u>

The accompanying notes to financial statements are an integral part of this statement.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Huron Shore Regional Utility Authority conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The following is a summary of the significant accounting policies.

A. Description of Authority's Operations

The Huron Shore Regional Utility Authority (Authority) operates as a joint venture under the supervision and control of a Board consisting of one representative from each of the following constituent municipalities: City of East Tawas, City of Tawas City, Charter Township of Oscoda, Charter Township of AuSable, Township of Alabaster, Township of Baldwin, and Township of Greenbush. The Authority was established as a joint venture among the above-mentioned municipalities for the purpose of acquiring, owning, improving, enlarging, extending and operating water supply and distribution systems and sewage disposal systems in accordance with the authorization of Act 233, P.A. of Michigan, 1955, as amended.

The basic financial statements of the Huron Shore Regional Utility Authority are prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Authority applies all relevant Governmental Accounting Standards Board (GASB) and Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, that apply to all proprietary fund type activities, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. All activities over which the Authority exercises oversight responsibility have been included in the reporting entity.

Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Fund Accounting

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Proprietary Fund

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The Authority's Enterprise Fund reports operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation

The Authority's basic financial statements consist of fund financial statements which provide a detailed level of financial information.

Fund Financial Statements

During the year, the Authority segregates transactions related to certain Authority functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Authority at a detailed level.

D. Measurement Focus and Basis of Accounting

The term measurement focus is used to denote what is being measured and reported in the Authority's operating statement. The Authority is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Authority is better or worse off economically as a result of events and transactions of the period.

The term basis of accounting is used to determine when a transaction or event is recognized on the Authority's operating statement. The Authority uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

E. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Authority are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

G. Capital Assets

Capital assets are stated at cost. Depreciation has been provided using the straight-line method over the estimated useful life of the assets.

Expenditures for maintenance, repairs and renewals are charged to operations as incurred and betterments are capitalized. The Authority eliminates the cost and related allowances from the accounts for assets sold or retired and resulting gains or losses therefrom are included in operations concurrently.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Authority's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

I. Restricted Assets and Restricted Net Assets

The restricted assets and restricted net assets represent the assets to be used for the retirement of general obligation bond issues.

J. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the Authority, these revenues are charges for services for building rentals and landing and fuel fees. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS

A. Change in Accounting Principles

For 2004, the Authority has implemented Governmental Accounting Standards Board (GASB) Statement Number 33 "Accounting and Financial Reporting for Non-Exchange Transactions," as amended by Statement Number 36 "Recipient Reporting for Certain Shared Non-Exchange Revenue," which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting; GASB Statement No. 34, "Basic Financial Statements -and Management's Discussion and Analysis-for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"; and GASB Statement No. 38, "Certain Financial Statement Note Disclosures".

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS (CONTINUED)

A. Change in Accounting Principles (Continued)

GASB Statement No. 34 established new financial reporting standards for state and local governments. This statement requires a significant change in the financial reporting standards for state and local governments including the Management Discussion and Analysis Section, which provides an overall analysis of the financial position and results of operations and conditions that could have a significant effect on the financial position or results of operations.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including the Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

B. Restatement of Net Assets

The restatement due to the implementation of the above statements and interpretation had the following effects on the net assets of the Authority as it was previously reported.

Retained Earnings	
December 31, 2003	\$ 3,459,566
Restatement of contributed capital in accordance with GASB Statement No. 33	<u>8,265,321</u>
Net Assets as restated at December 31, 2003	<u>\$ 11,724,887</u>

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the Authority's deposits and investments were reported in the basic financial statements in the following categories:

<u>Current Assets</u>	
Cash and Cash Equivalents	\$ 823,037
<u>Restricted Assets</u>	
Cash and Cash Equivalents	<u>6,014</u>
	<u>\$ 829,051</u>

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

The breakdown between deposits and investments is as follows:

Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 7,370
Investment in Municipal Investment Account Pooled Funds	<u>821,681</u>
Total	<u>\$ 829,051</u>

Deposits:

Deposits are carried at cost. Deposits of the Authority are held at Huron Community Bank in the name of the Authority. At December 31, 2004, the carrying amounts of the Authority's deposits were classified as to risk as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	<u>\$ 7,370</u>	<u>\$ 7,370</u>

Investments:

The Authority has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Authority to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- * United States government or federal agency obligation repurchase agreements
- * Banker's acceptances of United States banks
- * Commercial paper rated within the two highest classifications by not less than two standard rating services which matures not more than 270 days after the date of purchase
- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investments by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Authority's deposits and investments are in accordance with statutory authority.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments: (Continued)

The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority at December 31, 2004. The categories are described as follows:

Category 1 - Insured or registered, with securities held by the entity or its agent in the entity's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the entity's name.

All investments at December 31, 2004 consisted of the following which are not required to be categorized:

	<u>Carrying Amount</u>	<u>Market Value</u>
<u>Nonrisk-Categorized</u>		
Financial institution pooled funds	<u>\$ 821,681</u>	<u>\$ 821,681</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004 was as follows:

	<u>Balance 01/01/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/04</u>
Land	\$ 14,958	\$ 0	\$ 0	\$ 14,958
Distribution and collection system	<u>18,804,561</u>	<u>17,209</u>	<u>0</u>	<u>18,821,770</u>
	18,819,519	17,209	0	18,836,728
Less accumulated depreciation	<u>(2,477,402)</u>	<u>(378,386)</u>	<u>0</u>	<u>(2,855,788)</u>
Net capital assets	<u>\$ 16,342,117</u>	<u>\$ (361,177)</u>	<u>\$ 0</u>	<u>\$ 15,980,940</u>

Capital assets are stated at cost. Depreciation is calculated using the straight-line basis at the rate of 2% per year. The estimated useful lives are as follows:

Distribution and collection system 50 years

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 5 - LONG-TERM DEBT

Bonds Payable

\$1,300,000 Limited Tax General Obligation Bond Issue Dated November 1, 1995 of Huron Shore Regional Utility Authority (Water and Sewer System No. 1 Bonds)

Said bonds are issued for the purpose of financing the construction of additions, extensions, improvements and related appurtenances to the Huron Shore Regional Utility Authority's water and sewer system. The payments of principal and interest are made from the proceeds of contractual payments to be made by the City of Tawas City, the Charter Townships of Oscoda and AuSable and the Township of Baldwin. The municipalities have pledged their full faith and credit for the payment of their contractual payments. The Authority has pledged the contractual payments and its full faith and credit for payment.

Annual Principal and Interest Requirements

<u>Calendar Year</u>	<u>May 1 Principal</u>	<u>May 1 Interest</u>	<u>November 1 Interest</u>	<u>Total Future Annual Requirements</u>
2005	\$ 75,000	\$ 29,041	\$ 27,071	\$ 131,112
2006	75,000	27,072	25,084	127,156
2007	75,000	25,085	23,077	123,162
2008	75,000	23,079	21,034	119,113
2009	75,000	21,035	18,971	115,006
2010	100,000	18,972	16,171	135,143
2011	100,000	16,172	13,359	129,531
2012	100,000	13,360	10,546	123,906
2013	125,000	10,547	7,031	142,578
2014	125,000	7,031	3,516	135,547
2015	<u>125,000</u>	<u>3,516</u>	<u>0</u>	<u>128,516</u>
	<u>\$ 1,050,000</u>	<u>\$ 194,910</u>	<u>\$ 165,860</u>	<u>\$ 1,410,770</u>

\$7,930,000 Limited Tax General Obligation Bond Issue Dated May 1, 1996 of Huron Shore Regional Utility Authority (Water System No. 2 Bonds)

Said bonds are issued for the purpose of financing construction of a new water supply system to serve the cities of East Tawas and Tawas City, the Charter Townships of AuSable and Oscoda and the Township of Baldwin. The construction was originally funded with the proceeds of the Iosco County Limited Tax General Obligation Bonds dated March 1, 1991. The payments of principal and interest are made from the proceeds of contractual payments to be made by the above-mentioned municipalities. The municipalities have pledged their full faith and credit for the payment of their contractual payments. The Authority has pledged the contractual payments and its full faith and credit for payment.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 5 - LONG-TERM DEBT (CONTINUED)

Bonds Payable (Continued)

\$7,930,000 Limited Tax General Obligation Bond Issue Dated May 1, 1996 of Huron Shore Regional Utility Authority (Water System No. 2 Bonds) (Continued)

Annual Principal and Interest Requirements

<u>Calendar Year</u>	<u>May 1 Interest</u>	<u>May 1 Principal</u>	<u>November 1 Interest</u>	<u>Total Future Annual Requirements</u>
2005	\$ 92,279	\$ 570,000	\$ 92,279	\$ 754,558
2006	77,886	590,000	77,886	745,772
2007	62,546	580,000	62,546	705,092
2008	47,031	570,000	47,031	664,062
2009	31,499	565,000	31,499	627,998
2010	<u>15,820</u>	<u>560,000</u>	<u>15,820</u>	<u>591,640</u>
	<u>\$ 327,061</u>	<u>\$ 3,435,000</u>	<u>\$ 327,061</u>	<u>\$ 4,089,122</u>

The annual principal requirements for the years ending December 31, 2005 through 2009 for all debts outstanding as of December 31, 2004 re as follows:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
General Obligation Bonds	<u>\$ 645,000</u>	<u>\$ 665,000</u>	<u>\$ 655,000</u>	<u>\$ 645,000</u>	<u>\$ 640,000</u>

The following is a summary of long-term debt transactions of the Authority:

	<u>Balance 01/01/04</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/04</u>	<u>Due Within One Year</u>
General Obligation Bonds	<u>\$ 5,115,000</u>	<u>\$ 0</u>	<u>\$ 630,000</u>	<u>\$ 4,485,000</u>	<u>\$ 645,000</u>

NOTE 6 - SEGMENT INFORMATION

The Authority's segment information for the year ended December 31, 2004 is as follows:

Operating revenue	\$ 951,533
Operating loss	\$ (105,632)
Change in net assets	\$ 524,368
Net working capital	\$ 102,301
Bonds payable	\$ 4,485,000
Total net assets	\$ 12,249,255

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 7 - RISK MANAGEMENT

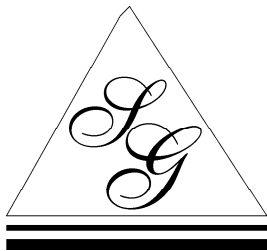
The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority continues to carry commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 8 - RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating loss	\$ (105,632)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	378,386
Changes in assets and liabilities:	
Increase in prepaid expenses	(706)
Increase in accounts payable	1,274
Increase in deferred revenue	<u>1,020</u>
Net cash provided by operating activities	<u>\$ 274,342</u>

NOTE 9 - MAINTENANCE CONTRACT

The Huron Shore Regional Utility Authority contracts with an outside firm to provide all routine operation and maintenance of the Authority's facilities. A monthly fee is paid to the firm for standard services and is subject to an annual review. For the year ended December 31, 2004, the total amount paid to the firm was \$524,507.



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

March 10, 2005

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board
Huron Shore Regional Utility Authority
Iosco County, Michigan

We have audited the financial statements of the business-type activities of the Huron Shore Regional Utility Authority as of and for the year ended December 31, 2004, which collectively comprise the Huron Shore Regional Utility Authority's basic financial statements and have issued our report thereon dated March 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

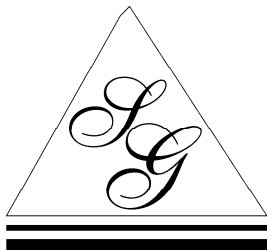
As part of obtaining reasonable assurance about whether the Huron Shore Regional Utility Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Huron Shore Regional Utility Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Authority Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gracik & Co., P.C.



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March 10, 2005

Members of the Board
Huron Shore Regional Utility Authority
Iosco County, Michigan

Dear Board Members:

We have audited the financial statements of the Huron Shore Regional Utility Authority for the year ended December 31, 2004, and have issued our report thereon dated March 10, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated February 10, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Huron Shore Regional Utility Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Huron Shore Regional Utility Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Huron Shore Regional Utility Authority are described in Note 1 to the financial statements. As described in Note 2 to the financial statements, the Authority changed accounting policies as a result of adopting Statement of Governmental Accounting Standards (GASB Statements) No. 33, 34, 36, 37 and 38, in the year ended December 31, 2004. We noted no transactions entered into by the Huron Shore Regional Utility Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Huron Shore Regional

Members of the City Council
Huron Shore Regional Utility Authority
March 10, 2005
Page Two

Utility Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Huron Shore Regional Utility Authority, either individually or in the aggregate, indicate matters that could have a significant effect on the Huron Shore Regional Utility Authority's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Huron Shore Regional Utility Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Authority.

This information is intended solely for the use of management, the City Council and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Graub & Co., P.C.